

Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 AF-10
ARA-10 EA-10 EUR-12 NEA-11 OIC-02 CTME-00 JUSE-00
AGRE-00 CEA-01 COME-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 PA-01 AID-05 SS-15 ITC-01
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USMTN
ACTION STR PASS ELECTRICALLY
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E.O.11652:N/A
TAGS: MTN, ETRD
SUBJECT: CONVERSION OF SPECIFIC AND COMPOUND DUTIES TO
AD VALOREM DUTIES

REF: GENEVA 8550

1. REFTEL REPORTED EC CONCERN EXPRESSED BY SIR ROY DENMAN
(DIRECTOR GENERAL, EXTERNAL RELATIONS, EC COMMISSION) ABOUT
U.S. INTENTIONS TO CONVERT SOME (OR MOST) U.S. SPECIFIC
AND COMPOUND DUTIES TO AD VALOREM DUTIES. AMBASSADOR
MCDONALD RESPONDED THAT A NUMBER OF U.S. INDUSTRIES HAD
EXPERIENCED SIGNIFICANT EROSION OF SPECIFIC TARIFF PROTEC-
TION BECAUSE OF INFLATION. A LONG PERIOD OF RENEGOTIATION
THEREFORE UNDER ARTICLE XXVIII WOULD NOT BE ACCEPTABLE
AND WE MUST HANDLE IT AS A PART OF THE TOKYO ROUND.
DENMAN THEN SAID THAT U.S. SHOULD AT LEAST REACH AGREEMENT
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WITH ITS TRADING PARTNERS ON THE DEPTH OF CUT BY LINE ON
ALL TARIFF ITEMS (AND THE U.S. ADDED APPROPRIATE CRITERIA,
E.G., BASE DATE/BASE RATE), AND LEAVE THE QUESTION OF
TECHNICAL CONVERSION UNTIL THE POST-JULY 15 PERIOD,
UNDER GATT ARTICLE XXVIII PROCEDURES.

2. A GATT PANEL HAS RECENTLY ISSUED ITS FINDINGS IN A

THREE-YEAR LONG POISONOUS DISPUTE BETWEEN THE EC AND CANADA INVOLVING EC CONVERSION OF SPECIFIC DUTIES ON LEAD AND ZINC AND RETALIATORY ACTION BY CANADA. (SEE L/4636 OF 28 APRIL 1978.) THIS REINFORCES USMTN DELEGATION'S VIEW THAT ANY CONVERSION OUTSIDE OF CONTEXT OF OVERALL MTN TARIFF LIBERALIZATION, PARTICULARLY IF IT INVOLVES SIGNIFICANT NUMBER OF TARIFF ITEMS, SIGNIFICANT NUMBER OF SUPPLIERS AND SIGNIFICANT AMOUNT OF TRADE, IS CERTAIN TO BE ACRIMONIOUS AND MAY LEAD TO RETALIATION AND COUNTER RETALIATION. IT WOULD ALSO INVOLVE ENERGIES OF A LARGE PART OF THE U.S. TRADE POLICY MECHANISM FOR SEVERAL YEARS.

3. IF USG CAN MAKE RAPID DECISIONS ON WHICH ITEMS IT WISHES TO CONVERT AND SO INDICATE NEW AD VALOREM RATES IN JUNE, A DECADE OF ARTICLE XXVIII NEGOTIATIONS MIGHT BE AVOIDED BY INCORPORATING ESSENCE OF DECISIONS IN JULY 15 POLITICAL SETTLEMENT. U.S. HAS ALREADY INDICATED IN JANUARY 23 OFFER INTENDED DEPTH OF CUT ON ALL ITEMS WITH SPECIFIC AND COMPOUND RATES, WHERE OFFER WAS MADE, BASED ON 1976 AD VALOREM EQUIVALENTS (AVE'S). U.S. COULD PROCEED WITH PERCENTAGE DEPTH OF CUT INDICATED IN JANUARY 23 OFFER APPLIED TO CONVERTED AD VALOREM RATES. SUCH NEW RATES PRESUMABLY WOULD BE GUIDED BY JUNE 1 USITC ADVICE AS WELL AS GATT PANEL DECISION THAT MOST RECENT THREE YEAR BASE PERIOD OF TOTAL MFN IMPORTS SHOULD BE BASIS FOR CONVERSION.
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4. A US-EC BILATERAL ON TARIFFS IS SCHEDULED JUNE 14. USMTN DELEGATION WOULD APPRECIATE AT LEAST PRELIMINARY INDICATION BEFORE THEN ON: (A) TIMING OF DECISIONS ON CONVERSION; (B) SCOPE OF PRODUCT COVERAGE OF CONVERSIONS; AND (C) WHETHER USG WOULD MAINTAIN DEPTH OF CUT INDICATED IN JANUARY 23 OFFER, APPLIED TO NEW AD VALOREM RATES. ALTHOUGH DENMAN ON REFLECTION WILL PROBABLY DROP BACK FROM HIS STATEMENT, CERTAINLY WE SHOULD KEEP PRESSING TO HAVE THESE CONVERSIONS INCLUDED AS A PART OF THE TOTAL TARIFF ADJUSTMENT AND AVOID COMPENSATION/BALANCING ISSUES IN ANY SUBSEQUENT ARTICLE XXVIII ACTIVITY. MCDONALD

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Disposition Approved on Date:
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